

ADOPTED 2005 BUDGET

DEPT: RETIREMENT SICK ALLOWANCE PAYMENTS

UNIT NO. 1939
FUND: General - 0001

OPERATING AUTHORITY & PURPOSE

Pursuant to the provisions of Section 59.51(2) of the Wisconsin Statutes, the County Board may represent the County and have the management of

the business and concerns of the County in all cases where no other provision is made.

BUDGET SUMMARY			
	2003 Actual	2004 Budget	2005 Budget
Retirement Sick Allowance Payments*	\$ 0	\$ 8,000,000	\$ 1,836,000
Savings	0	(612,000)	0
Property Tax Levy	\$ 0	\$ 7,388,000	\$ 1,836,000

- * For 2003, the cost of sick allowance payout at retirement was absorbed in each department's budget. In 2004, the dollar amount associated with this projected liability was budgeted in a non-departmental and was distributed to the departments during the year.

County-wide Cost of Retirement Sick Allowance Payments	
2001 Actual	\$ 1,707,000
2002 Actual	7,000,000
2003 Actual	2,661,582
2004 Projected	9,200,000
2005 Projected	6,000,000

Prior to enactment of the 2001-2004 wage and benefit packages, retiring employees were paid unused sick leave either in the form of a lump sum payment, or bi-weekly until paid-out as 'retirement leave.' Due to the period of time that retirement leave was paid out over, employees still accrued pension service credit, sick, vacation and personal hours. The amount of accumulated sick leave that could be utilized under either the lump sum or retirement leave option was capped for non-represented workers at 400 hours plus 16 hours for each additional 100 hours (or increment thereof) of accrued sick leave. The cap for represented workers varied by individual collective bargaining unit and generally ranged from 240 to 400 hours plus 16 hours for each additional 100 hours. Members of the deputy sheriff union had no lump sum payout option. Instead, they were able to receive additional pension service credit for all accrued sick leave.

The 2001-2004 wage and benefit packages eliminated the retirement leave option for covered employees. Instead, all employees hired before January 1, 1994 (pre-1994 hires) were to receive a lump sum payment, without a cap on hours, reflecting all accrued sick leave. Employees who were hired on or after January 1, 1994 (post-1993

hires) were to also receive the full value of their sick leave, without a cap on hours, in the same manner as for pre-1994 hires. However, instead of receiving the value of accrued sick leave as a lump sum payment, retirees hired after 1993 could utilize the value of the accrued hours only as a credit to purchase County health insurance after retirement. These changes did not impact the Deputy Sheriff union, who continue to earn pension credit for accrued sick leave hours.

As of March 15, 2002, the County Board of Supervisors reduced the sick leave payout for non-represented employees to the formula in effect prior to January 1, 2001. As a result, the sick leave payout hours were capped at 400 hours plus 16 hours for each additional 100 hours or part thereof. The option converting sick leave to retirement leave was not reinstated. Represented employees (with the exception of the deputies) continue to have 100% of their sick leave balance paid upon retirement.

On January 23, 2003, the County Board of Supervisors adopted File No. 02-503(a)(j) which directs the County to create a centralized accumulated sick leave funding method based on a percent of payroll.

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ACCOUNTING AND BUDGETING FOR SICK ALLOWANCE PAYMENT

The accounting and budgeting issues associated with sick leave payouts for retiring employees are complex and the way in which the liability is addressed depends on the fund individual County departments fall under, whether proprietary (internal service/enterprise) or general fund. Other factors include Government Accounting Standards Board (GASB) rules which determine how expenses accrued in a prior year but paid in a subsequent year are to be booked, and the booking of liabilities for "proprietary funds."

For proprietary fund departments, the County is required under GASB regulations to fund a calculated sick leave and vacation liability. The sick leave is only that sick leave that has a probability of being paid out at retirement. The County has been funding this liability on an annual basis since 1992 with annual amounts going into a reserve. The annual funding amounts are recorded in the County's operating accounts with a final entry recorded each year when the County closes its books. Sick leave payouts for retiring employees are not budgeted in advance. Milwaukee County proprietary fund departments include both Enterprise Fund departments (Airport and DHHS Behavioral Health Division) and Internal Service Fund departments (DAS-Risk Management Section and Information Management Services Division; and the Department of Parks and Public Infrastructure-Architectural, Engineering and Environmental Services Division, Fleet Management Division and Facilities Management Division).

For general fund departments, the County is not required by GASB regulations to book the full cost of vacation and sick leave to be paid as the result of retirement. Instead GASB rules only require the general fund to record a liability for the "... amount left unpaid at the end of the reporting period that normally would be liquidated with expendable available financial resources." The County records a liability for any sick leave costs to be paid as the result of retirement, which are incurred in the first sixty days of the new year. Due to the potential for higher than normal retirements in 2004, the County will be budgeting for the sick leave payout for general fund departments in this non-departmental unit.

The pre-1982 hires receive pension credit of 2.0% for each year of service plus a 25% maximum increase in the average earnings used to calculate pension payments that are fully earned in April 2004. The post-1981 hires receive pension credit of 2% per year of service, with no increase in average wages for pension payment calculation.

The 2004 Budget set aside \$7.3 million for retirement sick allowance payments. As of September 2004, DAS - Fiscal Affairs estimated that General Fund costs for this item were \$9.2 million, almost \$2 million more than budgeted. This item has proven to be difficult to forecast, and consequently, budget in future years.

BUDGET HIGHLIGHTS

The 2005 Budget includes \$1.8 million to fund the retirement sick allowance payments for small departments that do not have the ability to absorb this cost. Large departments, defined for this purpose, as departments with a total salaries and wages budget in excess of \$2 million, will be expected to absorb this cost during the course of 2005 by holding positions vacated by retirements open.